SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1997

O R

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 0-12699

ACTIVISION, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-2606438
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 OCEAN PARK BLVD., SANTA MONICA, CA	90405
(Address of principal executive offices)	(Zip Code)

(310) 255-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes [X] No [ ]

The number of shares of the registrant's Common Stock outstanding as of February 12, 1998 was 18,894,489.

ACTIVISION, INC.
1997 QUARTERLY REPORT ON 10Q

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(in thousands except per share data)

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	December 31, 1997	March 31, 1997
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 91,617	$ 21,358
Accounts receivable, net of allowances of $13,911 and $7,674 respectively	99,431	46,633
Inventories, net	17,588	8,283
Prepaid software and license royalties	8,281	6,559
Other current assets	2,440	1,222
Deferred income taxes	1,151	1,493
Total current assets	220,508	85,548
Property and equipment, net	10,916	5,990
Deferred income taxes	4,665	4,212
Other assets	2,426	255
Excess purchase price over identifiable assets acquired, net	23,838	23,749
Total assets	$ 262,353	$ 119,754
LIABILITIES		
Current liabilities:		
Notes payable to bank	$ 1,812	$ 1,600
Current portion of subordinated loan stock debentures	-	683
Accounts payable	76,583	19,291
Accrued expenses	25,278	12,136
Total current liabilities	103,673	33,710
Note payable to bank	1,157	-
Convertible subordinated notes	60,000	-
Subordinated loan stock debentures	-	2,533
Other liabilities	135	31
Total liabilities	164,965	36,274
Commitments and contingencies		
Redeemable preferred stock	-	1,286
Convertible preferred stock	-	214
Shareholders' equity:		
Common stock, $.000001 par value, 50,000,000 shares authorized, 19,322,443 and 17,113,007 shares issued and 18,822,443 and 16,613,077 outstanding, respectively	-	-
Additional paid-in capital	89,143	78,752
Retained earnings	13,544	8,664
Cumulative foreign currency translation	(21)	(158)
Less: Treasury stock, cost of 500,000 shares	(5,278)	(5,278)
Total shareholders' equity	97,388	81,980
Total liabilities and shareholders' equity	$ 262,353	$ 119,754

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands except income per share data)

	Quarter ended December 31,		Nine months ended December 31,	
	1997	1996	1997	1996
Net revenues	$ 122,141	$ 60,480	$ 201,670	$ 97,058
Cost of goods sold	77,078	36,185	127,089	51,562
Gross profit	45,063	24,295	74,581	45,496
Operating expenses:				
Product development	8,045	4,707	21,963	13,861
Sales and marketing	16,400	8,344	31,960	18,276
General and administrative	3,586	2,563	8,416	6,056
Amortization of intangible assets	404	393	1,159	1,104
Merger expenses	1,474	-	1,474	-
Total operating expenses	29,909	16,007	64,972	39,297
Operating income	15,154	8,288	9,609	6,199
Other income (expense):				
Interest, net	(232)	(31)	(377)	284
Income before income tax provision	14,922	8,257	9,232	6,483
Income tax provision	5,644	2,937	3,531	2,373
Net income	$ 9,278	$ 5,320	$ 5,701	$ 4,110
Basic net income per share	$ 0.50	$ 0.30	$ 0.31	$ 0.24
Diluted net income per share	$ 0.47	$ 0.29	$ 0.30	$ 0.23
Number of shares used in computing basic net income per share	18,581	17,781	18,296	16,908
Numbers of shares used in computing diluted net income per share	20,027	18,484	19,264	17,596

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACTIVISION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the Nine Months Ended December 31, 1997	1996
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 5,701	$ 4,110
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	410	995
Depreciation and amortization	3,871	2,746
Change in assets and liabilities:		
Accounts receivable	(52,934)	(15,377)
Inventories	(9,367)	(4,359)
Prepaid software and license royalties	(1,291)	(2,314)
Other assets	(3,389)	(377)
Accounts payable	57,482	14,989
Accrued liabilities	14,416	(1,605)
Other liabilities	(5)	(46)
Net cash provided by (used in) operating activities	14,894	(1,238)
Cash flows from investing activities:		
Cash paid by Combined Distribution (Holdings) Limited to acquire CentreSoft Limited (net of cash acquired)	(1,043)	(3,878)
Capital expenditures	(6,197)	(2,393)
Cash used in purchase acquisition	(246)	-
Adjustment for effect of poolings on prior periods	(1,641)	-
Other	-	(250)
Net cash used in investing activities	(9,127)	(6,521)
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	5,037
Issuance of common stock pursuant to employee stock option plan	3,961	1,067
Issuance of common stock pursuant to employee stock purchase plan	230	-
Dividends paid	(1,258)	(66)
Proceeds from note payable to bank (net of payments)	1,371	(58)
Proceeds from borrowings on line-of-credit	8,800	-
Payments on line-of-credit	(8,800)	-
Proceeds from issuance of subordinated convertible notes	60,000	-
Other	51	(30)
Net cash provided by financing activities	64,355	5,950
Effect of exchange rate changes on cash	137	457
Net increase (decrease) in cash and cash equivalents	70,259	(1,352)
Cash and cash equivalents at beginning of period	21,358	25,288
Cash and cash equivalents at end of period	$ 91,617	$ 23,936
Non Cash Investing Activities:		
Stock issued in exchange for licensing rights	$ 431	$ 822
Tax benefit derived from stock option exercises	521	-
Stock issued in purchase acquisition	136	-
Preferred stock converted to common stock in pooling transaction	1,286	-
Redeemable preferred stock converted to common stock in pooling transaction	214	-
Conversion of subordinated loan stock debentures to common stock in pooling transaction	3,216	-

Supplemental flow information:

Cash paid for income taxes	$ 2,607	$ 831
Cash paid for interest	696	203

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Activision, Inc. and its subsidiaries ("Company"). The information furnished is unaudited and reflects all adjustments which, in the opinion of management, are necessary to provide a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the financial statements included in the CompanyOs Annual Report on Form 10-K for the year ended March 31, 1997, and the Company's restated supplemental consolidated financial statements for the year ended March 31, 1997 and for the quarter and six months ended September 30, 1997 filed in the Company's Current Report on Form 8-K. These supplemental consolidated financial statements reflect the pooling of interests of the Company with Combined Distribution (Holdings) Limited ("CentreSoft") (see note 6 "Acquisitions"). Such supplemental consolidated financial statements did not, however, extend through the date of consummation of the CentreSoft acquisition or the pooling of interests of the Company with NBG Handels und Verlags GmbH ("NBG"), both of which occurred in November 1997. These supplemental statements have become the historical consolidated financial statements of the Company as financial statements covering the date of consummation of the business combination are being issued herein.

Certain amounts in the condensed consolidated financial statements have been reclassified to conform with the current period's presentation. These reclassifications had no impact on previously reported working capital or results of operations.

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, EARNINGS PER SHARE. Statement 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where necessary, restated to conform to the Statement 128 requirements.

2. INVENTORIES

Inventories, net (amounts in thousands):

	December 31, 1997	March 31, 1997
Finished goods	$ 15,067	$ 7,121
Purchased parts and components	2,521	1,162
	$ 17,588	$ 8,283

3. SOFTWARE DEVELOPMENT COSTS

Statement of Financial Accounting Standard No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," provides for the capitalization of certain software development costs once technological feasibility is established. The capitalized costs are then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenues to total projected revenues, whichever is greater. The software development costs that have been capitalized to date have been immaterial.

4. REVENUE RECOGNITION

Product Sales: The Company recognizes revenues from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges within certain specified periods and provides price protection on certain unsold merchandise. Revenues from product sales are reflected net of the allowance for returns and price protection.

Software Licenses: For those license agreements which provide the customers the right to multiple copies in exchange for guaranteed amounts, revenues are recognized at delivery of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned.

5. COMPUTATION OF NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands)

	Quarter ended December 31,		Nine months ended December 31,	
	1997	1996	1997	1996
NUMERATOR:				
Net income	$ 9,278	$ 5,320	$ 5,701	$ 4,110
Numerator for basic earnings per share-income available to common stockholders	9,278	5,320	5,701	4,110
Effect of dilutive securities				
Interest add-back on convertible debt	70	-	70	-
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	$ 9,348	$ 5,320	$ 5,771	$ 4,110
DENOMINATOR:				
Denominator for basic earnings per share-weighted average shares	18,581	17,781	18,296	16,908
Effect of dilutive securities:				
Employee stock options	1,100	703	852	688
Convertible debentures	346	-	116	-
Dilutive potential common shares	1,446	703	968	688
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions	20,027	18,484	19,264	17,596
Basic earnings per share	$ 0.50	$ 0.30	$ 0.31	$ 0.24
Diluted earnings per share	$ 0.47	$ 0.29	$ 0.30	$ .23

For the quarter and nine months ended December 31, 1997, options to purchase 793,000 and 1,397,000, respectively, shares of the Company's common stock were outstanding but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

For the quarter and nine months ended December 31, 1996, options to purchase 2,260,000 and 2,377,000 shares of the Company's common stock were outstanding but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

6. ACQUISITIONS

On November 26, 1997, the Company completed its acquisition of CentreSoft by the issuance of 2,787,043 shares of the Company's common stock in exchange for all the outstanding Ordinary Shares, "A" Ordinary Shares, "B" Ordinary Shares, redeemable preferred stock, convertible preferred stock and secured loan stock debentures of CentreSoft. In addition, the Company issued options to acquire 50,325 shares of the Company's common stock which were in exchange for outstanding CentreSoft stock options. The acquisition of CentreSoft was accounted for in accordance with the pooling of interests method of accounting and, accordingly, the accompanying consolidated financial statements have been retroactively adjusted as if CentreSoft and the Company had operated as one since June 28, 1996 (inception of CentreSoft).

Also on November 26, 1997, the Company completed its acquisition of NBG by the issuance of 281,206 shares of the Company's common stock in exchange for all outstanding common stock of NBG. In addition, as part of the transaction, the Company acquired the real property (including land and buildings) used by NBG that was owned by the two equity owners of NBG, in exchange for assumption of certain debt secured by a mortgage on the property. The transaction was accounted for as an immaterial pooling; accordingly, the Company's operating results were not restated for periods prior to October 1, 1997. However, weighted average shares outstanding and earnings per share data were retroactively restated for the effect of the NBG acquisition for all periods presented.

7. PRIVATE PLACEMENT OF CONVERTIBLE SUBORDINATED NOTES

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6 3/4% Convertible Subordinated Notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, $.000001 par value, of the Company, at a conversion price of $18.875 per share, (equivalent to a conversion rate of 52.9801 shares per $1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001, subject to premiums through December 31, 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING ITEM 2 ("MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS"), CONTAINS FORWARD LOOKING STATEMENTS REGARDING FUTURE EVENTS OR THE FUTURE FINANCIAL PERFORMANCE OF THE COMPANY THAT INVOLVE CERTAIN RISKS AND UNCERTAINTIES DISCUSSED IN THE COMPANY'S RESTATED SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS FILED ON FORM 8-K UNDER "CERTAIN CAUTIONARY INFORMATION". ACTUAL EVENTS OR THE ACTUAL FUTURE RESULTS OF THE COMPANY MAY DIFFER MATERIALLY FROM ANY FORWARD LOOKING STATEMENT DUE TO SUCH RISKS AND UNCERTAINTIES.

OVERVIEW

The Company is a leading international publisher, developer and distributor of interactive entertainment software. The Company currently focuses its publishing and development efforts on products designed for PCs and the Sony PlayStation console system. In selecting titles for acquisition or development, the Company currently pursues a balance between internally and externally developed titles, products based on proven technology and those based on newer technology, and PC and console products.

The Company distributes its products worldwide through its direct sales force and through third party distributors and licensees. In addition, in November 1997 the Company acquired CentreSoft and NBG and significantly increased its worldwide distribution capabilities. Financial information as of and for the year ended March 31, 1997 has been restated to reflect the CentreSoft acquisition as a pooling of interests.

The Company recognizes revenue from the sale of its products upon shipment. Subject to certain limitations, the Company permits customers to obtain exchanges within certain specified periods and provides price protection on certain unsold merchandise. Revenue from product sales is reflected after deducting the allowance for returns and price protection. With respect to license agreements which provide customers the right to multiple copies in exchange for guaranteed amounts, revenue is recognized upon delivery of the product master or the first copy. Per copy royalties on sales which exceed the guarantee are recognized as earned.

Cost of goods sold related to console, PC and OEM net revenues represents the manufacturing and related costs of computer software and console games. Manufacturers of the Company's computer software are located worldwide and are readily available. Console CDs and cartridges are manufactured by the respective video game console manufacturers, Sony, Sega and Nintendo, who often require significant lead time to fulfill the Company's orders. Also included in cost of goods sold is the royalty expense related to amounts due developers, product owners and other royalty participants as a result of product sales. Various contracts are maintained with developers, product owners or other royalty participants which state a royalty rate, territory and term of agreement, among other items. Royalties and license fees prepaid in advance of a product's release are capitalized. Upon a product's release, prepaid royalties and license fees are charged to cost of goods sold based on the contractual royalty rate. Management evaluates the future realization of prepaid royalties quarterly and charges to cost of goods sold any amounts that management deems unlikely to be amortized at the contract royalty rate through product sales.

Product development costs are accounted for in accordance with accounting standards which provide for the capitalization of certain software development costs once technological feasibility is established. The capitalized costs are then amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected revenues, whichever is greater. The software development costs that have been capitalized to date have been immaterial.

As a result of the CentreSoft Management Buyout occurring in June 1996 and the commencement therefrom of CentreSoft's operations (See note 3 to the Supplemental Consolidated Financial Statements filed on form 8-K), results of operations for the fiscal year ended March 31, 1997 and the quarter ended June 30, 1997 versus the fiscal year ended March 31, 1996 and the quarter ended June 30, 1996, respectively, are not indicative of comparative combined results for the Company combined with CentreSoft for the two periods.

The following tables set forth certain consolidated statements of operations data for the periods indicated as a percentage of total net revenues and also breaks down net revenues by territory, platform and channel:

	Quarter Ended December 31, 1997		1996		Nine Months Ended December 31, 1997		1996	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
STATEMENTS OF OPERATIONS DATA:								
Net revenues	$122,141	100.0%	$60,480	100.0%	$201,670	100.0%	$ 97,058	100.0%
Cost of goods sold	77,078	63.1%	36,185	59.8%	127,089	63.0%	51,562	53.1%
Gross profit	45,063	36.9%	24,295	40.2%	74,581	37.0%	45,496	46.9%
Operating expenses:								
Product development	$ 8,045	6.6%	$ 4,707	7.8%	$ 21,963	10.9%	$ 13,861	14.3%
Sales and marketing	16,400	13.4%	8,344	13.8%	31,960	15.8%	18,276	18.8%
General and administrative	3,586	2.9%	2,563	4.2%	8,416	4.2%	6,056	6.2%
Amortization of intangible assets	404	0.4%	393	0.6%	1,159	0.6%	1,104	1.1%
Merger expenses	1,474	1.2%	-	-	1,474	0.7%	-	-
Total operating expenses	29,909	24.5%	16,007	26.4%	64,972	32.2%	39,297	40.4%
Operating income	15,154	12.4%	8,288	13.7%	9,609	4.8%	6,199	6.5%
Other income (expense)	(232)	(0.2%)	(31)	-	(377)	(0.2%)	284	0.2%
Income before income tax provision	14,922	12.2%	8,257	13.7%	9,232	4.6%	6,483	6.7%
Income tax provision	5,644	4.6%	2,937	4.9%	3,531	1.8%	2,373	2.4%
Net income (loss)	$ 9,278	7.6%	$ 5,320	8.8%	$ 5,701	2.8%	$ 4,110	4.3%
NET REVENUES BY TERRITORY:								
North America	$ 42,329	34.6%	$ 24,295	40.2%	$ 67,468	33.5%	$ 44,456	45.8%
Europe	73,811	60.4%	33,005	54.6%	123,048	61.0%	46,126	47.5%
Japan	2,505	2.1%	1,014	1.7%	3,100	1.5%	2,265	2.3%
Australia and Pacific Rim	2,589	2.1%	1,813	3.0%	5,988	3.0%	3,550	3.7%
Latin America	907	0.8%	353	0.5%	2,066	1.0%	661	0.7%
	$ 122,141	100.0%	$ 60,480	100.0%	$201,670	100.0%	$ 97,058	100.0%
NET REVENUES BY PLATFORM:								
Console	$ 49,040	40.2%	$ 20,514	33.9%	$ 75,780	37.6%	$ 22,837	23.5%
PC	73,101	59.8%	39,966	66.1%	125,890	62.4%	74,221	76.5%
	$ 122,141	100.0%	$ 60,480	100.0%	$201,670	100.0%	$ 97,058	100.0%
NET REVENUES BY CHANNEL:								
Retailer/Reseller	$ 114,321	93.6%	$ 53,659	88.7%	$181,568	90.0%	$ 82,502	85.0%
OEM	3,540	2.9%	4,849	8.0%	10,890	5.4%	11,184	11.5%
Licensing, on-line and other	4,280	3.5%	1,972	3.3%	9,212	4.6%	3,372	3.5%
	$ 122,141	100.0%	$ 60,480	100.0%	$201,670	100.0%	$ 97,058	100.0%

RESULTS OF OPERATIONS

NET REVENUES

Net revenues for the quarter ended December 31, 1997 increased 102.0% from the same period last year, from $60.5 million to $122.1 million. This increase was primarily attributable to a 74.2% increase in net revenues in North America from $24.3 million to $42.3 million, a 123.6% increase in net revenues in Europe from $33.0 million to $73.8 million, and a 42.8% increase in net revenues in the Australia and Pacific Rim territories from $1.8 million to $2.6 million.

Net revenues for the nine months ended December 31, 1997 increased 107.8% from the same period last year, from $97.1 million to $201.7 million. This increase was attributable to 51.8% increase in net revenues in North America from $44.4 million to $67.4 million, a 166.8% increase in net revenues in Europe from $46.1 million to $123.0 million, and a 68.7% increase in net revenues in the Australia and Pacific Rim territories from $3.6 million to $6.0 million.

The overall increase in net revenues and the increases in net revenues in the specific territories for the quarter and nine months ended December 31, 1997 were due to the initial releases during such periods of QUAKE II (Windows 95), NIGHTMARE CREATURES (PlayStation), ZORK GRAND INQUISITOR (Windows 95), HEAVY GEAR (Windows 95), SHANGHAI DYNASTY (Windows 95), HEXEN II (Windows 95), DARK REIGN: THE FUTURE OF WAR (Windows 95), CAR & DRIVER'S GRAND TOUR RACING 1998 (PlayStation) and TWINSEN'S ODYSSEY (Windows 95). Net revenues also increased during such nine months period due to the fact that CentreSoft, which began operations in June 1996, contributed only seven months of revenue for the periods ended December 31, 1996, as opposed to nine months of revenue for the periods ended December 31, 1997. In addition, revenues attributable to NBG, which was acquired in November 1997, were only included in the Company's net revenues for the quarter ended December 31, 1997.

COST OF GOODS SOLD; GROSS PROFIT

Gross profit as a percentage of net revenues decreased to 36.9% for the quarter ended December 31, 1997, from 40.2% for the same period last year. Gross profit as a percentage of net revenues decreased from 46.9% to 37.0% for the nine months ended December 31, 1997. The decrease in gross profit as a percentage of net revenues is due to the increase in the sales mix of console net revenues versus PC net revenues and the increase in net revenues derived from distribution arrangements as opposed to publishing arrangements. Future determination of gross profit as a percentage of net revenues will be driven primarily by the mix of new PC and console products released by the Company during the applicable period, the mix of revenues related to publishing arrangements versus distribution arrangements during the applicable period, as well as the mix of internal versus external product development, the latter in each case resulting in lower gross profit margins.

OPERATING EXPENSES

Product development expenses for the quarter ended December 31, 1997 increased 70.9% from the same period last year, from $4.7 million to $8.0 million. As a percentage of net revenues, product development expenses decreased from 7.8% to 6.6%. Product development expenses for the nine months ended December 31, 1997 increased 58.4% from the same period last year, from $13.9 million to $22.0 million. As a percentage of net revenues, product development expense decreased slightly from 14.3% to 10.9%. The increases in the amount of product development expenses for the quarter and nine month periods were due to an increase in the number of products in development, the acquisition of Raven Software Corporation, and the increase in costs associated with enhanced content and new technologies incorporated into the Company's recent products. In addition, the increase was partly attributable to an increase in the number of products being localized for international territories.

Sales and marketing expenses for the quarter ended December 31, 1997 increased 96.5% from the same period last year, from $8.3 million to $16.4 million. As a percentage of net revenues, sales and marketing expenses decreased from 13.8% to 13.4%. Sales and marketing expenses for the nine months ended December 31, 1997 increased 74.9% from the same period last year, from $18.2 million to $32.0

million. As a percentage of net revenues, sales and marketing expenses decreased from 18.8% to 15.8%. The increases in the amount of sales and marketing expenses for the quarter and nine month periods were due to the partial variable nature of sales and marketing expenses, the effect of the increase in net revenues, and an increase in the number of products released and to be released during the current fiscal year.

General and administrative expenses for the quarter ended December 31, 1997 increased 39.9% from the same period last year, from $2.6 million to $3.6 million, but decreased as a percentage of net revenues from 4.2% to 2.9%. General and administrative expenses for the nine months ended December 31, 1997 increased 39.0% from the same period last year, from $6.1 million to $8.4 million, but decreased as a percentage of net revenues from 6.2% to 4.2%. The period over period increase in the amount of general and administrative expenses for both the quarter and nine month periods was due to an increase in head count related expenses, the expansion of facilities both in North America and internationally, and the implementation of new management information systems. The decrease for the quarter and nine month periods in sales and marketing as a percentage of revenues, however, is due to the operating expense leverage gained as a result of an increased revenue base.

OTHER INCOME (EXPENSE)

Net interest expense increased from $31,000 for the quarter ended December 31, 1996 to $232,000 for the quarter ended December 31, 1997. Net interest income of $284,000 for the nine months ended December 31, 1996 decreased to net interest expense of $377,000 for the nine months ended December 31, 1997. Interest expense increased due to lower average cash and cash equivalent balances, an increase in average outstanding borrowings on the Company's lines of credit and the issuance of the subordinated convertible notes in December 1997.

INCOME TAX PROVISION

The income tax provision of approximately $5,644,000 and $3,531,000 for the quarter and nine months ended December 31, 1997, respectively, reflects the Company's expected effective income tax rate for the fiscal year ending March 31, 1998.

NET INCOME

For the reasons noted above, net income increased to $9.3 million for the quarter ended December 31, 1997, from a net income of $5.3 million for the same period in the prior fiscal year. For the nine months ended December 31, 1997, net income increased to $5.7 million, from a net income of $4.1 million for the same period in the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased $70.2 million, from $21.4 million at March 31, 1997 to $91.6 million at December 31, 1997. Approximately $14.9 million in cash and cash equivalents were provided by operating activities during the nine month period ended December 31, 1997. This increase in cash and cash equivalents from operating activities was primarily the result of an increase in net income from operations after adding back depreciation and amortization, and increases in accounts payable and accrued liabilities offset partially by increases in accounts receivables and inventory.

In addition, approximately $9.1 million in cash and cash equivalents were used in investing activities. Capital expenditures totaled approximately $6.2 million, which were primarily composed of expenditures related to the Company moving its Los Angeles office to a new facility in Santa Monica, California.

Sources of cash provided by financing activities totaled approximately $64.4 million for the nine months ended December 31, 1997, which included $60.0 million in proceeds from the private placement of convertible subordinated notes completed in December 1997, as described below, and approximately $4.0 million in proceeds from the exercise of employee stock options.

In October 1997, the Company increased its revolving credit and letter of credit facility (the "Facility") with its bank (the "Bank") from $5.0 million to $12.5 million. The Facility provides the Company the ability to borrow funds and issue letters of credit against eligible domestic accounts receivable up to $12.5 million. The Facility expires in September 1998. The Company had no borrowings outstanding against the Facility as of December 31, 1997. In addition, in September 1997, the Company entered into a $2.0 million line of credit agreement (the "Asset Line") with the Bank; drawings under the Asset Line are structured with 36 month repayment terms and the Asset Line expires in September 1998. Borrowings under the Asset Line totaled $1.3 million as of December 31, 1997, with an effective borrowing rate of 8.3%. In June 1996, CentreSoft entered into a revolving credit facility (the "CentreSoft Facility") with its bank for approximately $8.5 million. The CentreSoft Facility can be used for CentreSoft's working capital requirements. The CentreSoft Facility expires in June 2000. The Company had no borrowings outstanding against the CentreSoft facility as of December 31, 1997.

In December 1997, the Company completed the private placement of $60.0 million principal amount of 6 3/4% Convertible Subordinated Notes due 2005 (the "Notes"). The Notes are convertible, in whole or in part, at the option of the holder at any time after December 22, 1997 (the date of original issuance) and prior to the close of business on the business day immediately preceding the maturity date, unless previously redeemed or repurchased, into common stock, $.000001 par value, of the Company, at a conversion price of $18.875 per share, (equivalent to a conversion rate of 52.9801 shares per $1,000 principal amount of Notes), subject to adjustment in certain circumstances. The Notes are redeemable, in whole or in part, at the option of the Company at any time on or after January 10, 2001, subject to premiums through December 31, 2003.

The Company's current principal source of liquidity is $91.6 million in cash and cash equivalents. The Company uses its working capital to finance ongoing operations, including acquisitions of inventory and equipment, to fund the development, production, marketing and selling of new products, and to obtain intellectual property rights for future products from third parties. Management believes that the CompanyOs existing cash, together with the capital available from the Facility, Asset Line and the CentreSoft Facility, will be sufficient to meet the Company's operational requirements for at least the next twelve months.

The Company's management currently believes that inflation has not had a material impact on continuing operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaces Accounting Principles Board Opinion ("APB") No. 15 and simplifies the computation of earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company, similar to fully diluted EPS under APB No. 15. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. The Company adopted SFAS No. 128 for the financial statements for the three and nine months ended December 31, 1997.

SFAS No. 130, "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS No. 130 effective April 1, 1998.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to stockholders. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers. The Company will adopt SFAS No. 131 effective April 1, 1998.

The AICPA recently issued Statement of Position 97-2, "Software Revenue Recognition," (SOP 97-2) effective for transactions entered into in fiscal years beginning after December 15, 1997. The Company will adopt SOP 97-2 for transactions occurring on or after April 1, 1998. The Company is currently in substantial compliance with the provisions thereof.

FACTORS AFFECTING FUTURE PERFORMANCE

In connection with the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"), the Company is hereby disclosing certain cautionary information to be used in connection with written materials (including this Quarterly Report on Form 10-Q) and oral statements made by or on behalf of its employees and representatives that may contain "forward-looking statements" within the meaning of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The listener or reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. The discussion below highlights some of the more important risks identified by management, but should not be assumed to be the only factors that could affect future performance. The reader or listener is cautioned that the Company does not have a policy of updating or revising forward-looking statements and thus he or she should not assume that silence by management over time means that actual events are bearing out as estimated in such forward-looking statements.

FLUCTUATIONS IN QUARTERLY RESULTS; FUTURE OPERATING RESULTS UNCERTAIN; SEASONALITY. The Company's quarterly operating results have varied significantly in the past and will likely vary significantly in the future depending on numerous factors, several of which are not under the Company's control. Such factors include, but are not limited to, demand for the Company's products and those of its competitors, the size and rate of growth of the interactive entertainment software market, development and promotional expenses relating to the introduction of new products, changes in computing platforms, product returns, the timing of orders from major customers, delays in shipment, the level of price competition, the timing of product introduction by the Company and its competitors, product life cycles, software defects and other product quality problems, the level of the Company's international revenues, and personnel changes. In particular, during the past few fiscal years the Company's operating results for the quarters ended June 30 have been less favorable than in other quarters as a result of the release of fewer new products during the June 30 quarters in accordance with the Company's product release schedules. Products are generally shipped as orders are received, and consequently, the Company operates with little or no backlog. Net revenues in any quarter are, therefore, substantially dependent on orders booked and shipped in that quarter.

The Company's expenses are based in part on the Company's product development and marketing budgets. Product development and marketing costs generally are expensed as incurred, which is often long before a product is released. In addition, a large portion of the Company's expenses are fixed. As the Company increases its development and marketing activities, current expenses will increase and, if sales from previously released products are below expectations, net income is likely to be disproportionately affected.

Due to all of the foregoing, revenues and operating results for any future quarter are not predictable with any significant degree of accuracy. Accordingly, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

The Company's business has experienced and is expected to continue to experience significant seasonality, in part due to consumer buying patterns. Net revenues and net income typically are significantly higher during the fourth calendar quarter, due primarily to the increased demand for consumer software during the year-end holiday buying season. Net revenues and net income in other quarters are generally lower and vary significantly as a result of new product introductions and other factors. For example, the Company's net revenues in its last seven quarters were $122.1 million for the quarter ended December 31, 1997, $53.0 million for the quarter ended September 30, 1997, $26.5 million for the quarter ended June 30, 1997, $57.6 million for the quarter ended March 31, 1997, $60.5 million for the quarter ended December 31, 1996, $29.6 million for the quarter ended September 30, 1996 and $7.0 million for the quarter ended June 30, 1996. The Company's net income (loss) for the last seven quarters were $9.3 million for the quarter ended December 31, 1997, $1.8 million for the quarter ended September 30, 1997, $(5.4 million) for the quarter ended June 30, 1997, $5.1 million for the quarter ended March 31, 1997, $5.3 million for the quarter ended December 31, 1996, $1.4 million for the quarter ended September 30, 1996, and $(2.6 million) for the quarter ended June 30, 1996. The Company expects its net revenue and operating results to continue to reflect significant seasonality.

DEPENDENCE ON NEW PRODUCT DEVELOPMENT; PRODUCT DELAYS. The Company's future success depends on the timely introduction of successful new products to replace declining revenues from older products. If, for any reason, revenues from new products were to fail to replace declining revenues from older products, the Company's business, operating results and financial condition would be materially and adversely affected. In addition, the Company believes that the competitive factors in the interactive entertainment software marketplace create the need for higher quality, distinctive products that incorporate increasingly sophisticated effects and the need to support product releases with increased marketing, resulting in higher development, acquisition and marketing costs. The lack of market acceptance or significant delay in the introduction of, or the presence of a defect in, one or more products could have a material adverse effect on the Company's business, operating results and financial condition, particularly in view of the seasonality of the Company's business. Further, because a large portion of a product's revenue generally is associated with initial shipments, the delay of a product introduction expected near the end of a fiscal quarter may have a material adverse effect on operating results for that quarter.

The Company has, in the past, experienced significant delays in the introduction of certain new products. The timing and success of interactive entertainment products remain unpredictable due to the complexity of product development, including the uncertainty associated with technological developments. Although the Company has implemented substantial development controls, there likely will be delays in developing and introducing new products in the future. There can be no assurance that new products will be introduced on schedule, or at all, or that they will achieve market acceptance or generate significant revenues.

RELIANCE ON THIRD PARTY DEVELOPERS AND INDEPENDENT CONTRACTORS. The percentage of products published by the Company that are developed by independent third party developers has increased over the last several fiscal years. From time to time, the Company also utilizes independent contractors for certain aspects of internal product development and production. The Company has less control over the scheduling and the quality of work by third party developers and independent contractors than that of its own employees. A delay in the work performed by third party developers and independent contractors or poor quality of such work may result in product delays. Although the Company intends to continue to rely in part on products that are developed primarily by its own employees, the Company's ability to grow its business and its future operating results will depend, in significant part, on the Company's continued ability to maintain relationships with skilled third party developers and independent contractors. There can be no assurance that the Company will be able to maintain such relationships.

UNCERTAINTY OF MARKET ACCEPTANCE; SHORT PRODUCT LIFE CYCLES. The market for entertainment systems and software has been characterized by shifts in consumer preferences and short product life cycles. Consumer preferences for entertainment software products are difficult to predict and few entertainment software products achieve sustained market acceptance. There can be no assurance that new products introduced by the Company will achieve any significant degree of market acceptance, that such acceptance will be sustained for any significant period, or that product life cycles will be sufficient to permit the Company to recoup development, marketing and other associated costs. In addition, if market acceptance is not achieved, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Failure of new products to achieve or sustain market acceptance or product returns in excess of the Company's expectations would have a material adverse effect on the Company's business, operating results and financial condition.

PRODUCT CONCENTRATION; DEPENDENCE ON HIT PRODUCTS. A key aspect of the Company's strategy is to focus its development and acquisition efforts on selected, high quality entertainment software products. The Company derives a significant portion of its revenues from a relatively small number of high quality entertainment software products released each year, and many of these products have substantial production or acquisition costs and marketing budgets. During fiscal 1996 and 1997, one title accounted for approximately 49% and 26%, respectively, of the Company's consolidated net revenues. In addition, during fiscal 1997, one other title accounted for approximately 13% of the Company's consolidated net revenues. The Company anticipates that a limited number of products will continue to produce a disproportionate amount of revenues. Due to this dependence on a limited number of products, the failure of one or more of the Company's principal new releases to achieve anticipated results may have a material adverse effect on the Company's business, operating results and financial condition.

The Company's strategy also includes as a key component developing and releasing products that have franchise value, such that sequels, enhancements and add-on products can be released over time, thereby extending the life of the property in the market. While the focus on franchise properties, if successful, results in extending product life cycles, it also results in the Company depending on a limited number of titles for its revenues. There can be no assurance that the Company's existing franchise titles can continue to be exploited as successfully as in the past. In addition, new products that the Company believes will have potential value as franchise properties may not achieve market acceptance and therefore may not be a basis for future releases.

INDUSTRY COMPETITION; COMPETITION FOR SHELF SPACE. The interactive entertainment software industry is intensely competitive. Competition in the industry is principally based on product quality and features, the compatibility of products with popular platforms, company or product line brand name recognition, access to distribution channels, marketing effectiveness, reliability and ease of use, price and technical support. Significant financial resources also have become a competitive factor in the entertainment software industry, principally due to the substantial cost of product development and marketing that is required to support best-selling titles. In addition, competitors with broad product lines and popular titles typically have greater leverage with distributors and other customers who may be willing to promote titles with less consumer appeal in return for access to such competitor's most popular titles.

The Company's competitors range from small companies with limited resources to large companies with substantially greater financial, technical and marketing resources than those of the Company. The Company's competitors currently include Electronic Arts, Lucas Arts, Microsoft, Sega, Nintendo, Sony, Cendant, GT Interactive, Broderbund, Midway, Interplay, Virgin and Eidos, among many others.

As competition increases, significant price competition, increased production costs and reduced profit margins may result. Prolonged price competition or reduced demand would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, operating results and financial condition.

Retailers typically have a limited amount of shelf space, and there is intense competition among entertainment software producers for adequate levels of shelf space and promotional support from retailers. As the number of entertainment software products increase, the competition for shelf space has intensified, resulting in greater leverage for retailers and distributors in negotiating terms of sale, including price discounts and product return policies. The Company's products constitute a relatively small percentage of a retailer's sales volume, and there can be no assurance that retailers will continue to purchase the Company's products or promote the Company's products with adequate levels of shelf space and promotional support.

DEPENDENCE ON DISTRIBUTORS; RISK OF CUSTOMER BUSINESS FAILURE; PRODUCT RETURNS. Certain mass market retailers have established exclusive buying relationships under which such retailers will buy consumer software only from one intermediary. In such instances, the price or other terms on which the Company sells to such retailers may be adversely affected by the terms imposed by such intermediary, or the Company may be unable to sell to such retailers on terms which the Company deems acceptable. The loss of, or significant reduction in sales attributable to, any of the Company's principal distributors or retailers could materially adversely affect the Company's business, operating results and financial condition.

Distributors and retailers in the computer industry have from time to time experienced significant fluctuations in their businesses and there have been a number of business failures among these entities. The insolvency or business failure of any significant distributor or retailer of the Company's products could have a material adverse effect on the Company's business, operating results and financial condition. Sales are typically made on credit, with terms that vary depending upon the customer and the nature of the product. The Company does not hold collateral to secure payment. Although the Company has obtained insolvency risk insurance to protect against any bankruptcy, insolvency or liquidation that occur to its customers, such insurance contains a significant deductible as well as a co-payment obligation, and the policy does not cover all instances of non-payment. In addition, the Company maintains a reserve for uncollectible receivables that it believes to be adequate, but the actual reserve that is maintained may not be sufficient in every circumstance. As a result of the foregoing, a payment default by a significant customer could have a material adverse effect on the Company's business, operating results and financial condition.

The Company also is exposed to the risk of product returns from distributors and retailers. Although the Company provides reserves for returns that it believes are adequate, and although the Company's agreements with certain of its customers place certain limits on product returns, the Company could be forced to accept substantial product returns to maintain its relationships with retailers and its access to distribution channels. Product returns that exceed the Company's reserves could have a material adverse effect on the Company's business, operating results and financial condition.

CHANGES IN TECHNOLOGY AND INDUSTRY STANDARDS. The consumer software industry is undergoing rapid changes, including evolving industry standards, frequent new platform introductions and changes in consumer requirements and preferences. The introduction of new technologies, including operating systems such as Microsoft's Windows 95, technologies that support multi-player games, and new media formats such as on-line delivery and digital video disks ("DVD"), could render the Company's previously released products obsolete or unmarketable. The development cycle for products utilizing new operating systems, microprocessors or formats may be significantly longer than the Company's current development cycle for products on existing operating systems, microprocessors and formats and may require the Company to invest resources in products that may not become profitable. There can be no assurance that the mix of the Company's future product offerings will keep pace with technological changes or satisfy evolving consumer preferences, or that the Company will be successful in developing and marketing products for any future operating system or format. Failure to develop and introduce new products and product enhancements in a timely fashion could result in significant product returns and inventory obsolescence and could have a material adverse effect on the Company's business, operating results and financial condition.

LIMITED PROTECTION OF INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS; RISK OF LITIGATION. The Company holds copyrights on its products, manuals, advertising and other materials and maintains trademark rights in the Company name, the ACTIVISION logo, and the names of products owned by the Company. The Company regards its software as proprietary and relies primarily on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements, and other methods to protect its proprietary rights. Unauthorized copying is common within the software industry, and if a significant amount of unauthorized copying of the Company's products were to occur, the Company's business, operating results and financial condition could be adversely affected. There can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. As is common in the industry, from time to time the Company receives notices from third parties claiming infringement of intellectual property rights of such parties. The Company investigates these claims and responds as it deems appropriate. Any claims or litigation, with or without merit, could be costly and could result in a diversion of management's attention, which could have a material adverse effect on the Company's business, operating results and financial condition. Adverse determinations in such claims or litigation could also have a material adverse effect on the Company's business, operating results and financial condition.

Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. In selling its products, the Company relies primarily on "shrink wrap" licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. Further, the Company enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in such countries.

DEPENDENCE ON KEY PERSONNEL. The Company's success depends to a significant extent on the performance and continued service of its senior management and certain key employees. Competition for highly skilled employees with technical, management, marketing, sales, product development and other specialized training is intense, and there can be no assurance that the Company will be successful in attracting and retaining such personnel. Specifically, the Company may experience increased costs in order to attract and retain skilled employees. Although the Company generally enters into term employment agreements with its skilled employees and other key personnel, there can be no assurance that such employees will not leave the Company or compete against the Company. The Company's failure to attract or retain qualified employees could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS. International sales and licensing accounted for 28%, 23% and 58% of the Company's total revenues in the fiscal years 1995, 1996 and 1997, respectively. The Company intends to continue to expand its direct and indirect sales, marketing and localization activities worldwide. Such expansion will require significant management time and attention and financial resources in order to develop adequate international sales and support channels. There can be no assurance, however, that the Company will be able to maintain or increase international market demand for its products. International sales are subject to inherent risks, including the impact of possible recessionary environments in economies outside the United States, the costs of transferring and localizing products for foreign markets, longer receivable collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, and political and economic instability. There can be no assurance that the Company will be able to sustain or increase international revenues or that the foregoing factors will not have a material adverse effect on the Company's future international revenues and, consequently, on the Company's business, operating results and financial condition. The Company currently does not engage in currency hedging activities. Although exposure to currency fluctuations to date has been insignificant, there can be no assurance that fluctuations in currency exchange rates in the future will not have a material adverse impact on revenues from international sales and licensing and thus the Company's business, operating results and financial condition.

RISK OF SOFTWARE DEFECTS. Software products such as those offered by the Company frequently contain errors or defects. Despite extensive product testing, in the past the Company has released products with defects and has discovered software errors in certain of its product offerings after their introduction. In particular, the PC hardware environment is characterized by a wide variety of non-standard peripherals (such as sound cards and graphics cards) and configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. There can be no assurance that, despite testing by the Company, errors will not be found in new products or releases after commencement of commercial shipments, resulting in a loss of or delay in market acceptance, which could have a material adverse effect on the Company's business, operating results and financial condition.

RISKS ASSOCIATED WITH ACQUISITIONS. The Company intends to integrate the operations of its recently acquired CentreSoft and NBG subsidiaries with its previously existing European operations. This process, as well as the process of managing two significant new operations, will require substantial management time and effort and could divert the attention of management from other matters. In addition, there is a risk of loss of key employees, customers and vendors of the newly acquired operations as well as existing operations as this process is implemented. There is no assurance that the Company will be successful in integrating these operations or that, if the operations are combined, that there will not be adverse effects on its business.

Consistent with its strategy to enhance distribution and product development capabilities, the Company intends to continue to pursue acquisitions of companies and intellectual property rights and other assets that can be acquired on acceptable terms and which the Company believes can be operated or exploited profitably. Some of these acquisitions could be material in size and scope. While the Company will continually be searching for appropriate acquisition opportunities, there can be no assurance that the Company will be successful in identifying suitable acquisitions. If any potential acquisition opportunities are identified, there can be no assurance that the Company will consummate such acquisitions or if any such acquisition does occur, that it will be successful in enhancing the Company's business or be accretive to the Company's earnings. As the entertainment software business continues to consolidate, the Company faces significant competition in seeking acquisitions and may in the future face increased competition for acquisition opportunities, which may inhibit its ability to complete suitable transactions. Future acquisitions could also divert substantial management time, could result in short term reductions in earnings or special transaction or other charges and may be difficult to integrate with existing operations or assets.

The Company may, in the future, issue additional shares of Common Stock in connection with one or more acquisitions, which may dilute its shareholders, including investors in the offering. Additionally, with respect to most of its future acquisitions, the Company's shareholders may not have an opportunity to review the financial statements of the entity being acquired or to vote on such acquisitions.

RISK OF CENTRESOFT VENDOR DEFECTIONS; VENDOR CONCENTRATION.

The Company's recently acquired CentreSoft subsidiary performs software distribution services in the United Kingdom and, via export, in other European territories for a variety of entertainment software publishers many of which are competitors of the Company. These services are generally performed under limited term contracts some of which provide for cancellation in the event of a change of control. While the Company expects to use reasonable efforts to retain these clients, there can be no assurance that the Company will be successful in this regard. The cancellation or non-renewal of one or more of these contracts could have a material adverse effect on the Company's business, operating results and financial condition. Two of CentreSoft's vendors accounted for 37%, 14% and 10%, respectively, of CentreSoft's net revenues in fiscal year 1997.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to routine claims and suits brought against it in the ordinary course of business, including disputes arising over the ownership of intellectual property rights and collection matters. In the opinion of management, the outcome of such routine claims will not have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 5. OTHER INFORMATION

The following table presents the previous five fiscal years ended March 31, 1997 earnings per share:

	1997	1996	1995	1994	1993
Basic earnings per share	0.52	0.36	(0.10)	(0.78)	(0.73)
Basic earnings per share-dissolution of discontinued operations	-	-	-	-	(0.06)
Basic earnings per share-discontinued operations	-	-	-	-	(0.17)
Diluted earnings per share	0.50	0.34	(0.10)	(0.78)	(0.73)
Diluted earnings per share-dissolution of discontinued operations	-	-	-	-	(0.06)
Diluted earnings per share discontinued operations	-	-	-	-	(0.17)

The following table presents the reconciliation of earnings per share calculations restated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS No. 128), for each of the years in the three year period ended March 31, 1997:

	For the Year Ended March 31, 1997	March 31, 1996	March 31, 1995
	(amounts in thousands)		
NUMERATOR:			
Net income (loss) from continuing operations	$ 9,226	$ 5,530	$ (1,520)
Less: Preferred stock dividends	(151)	-	-
Numerator for basic and diluted net income (loss) per share-income available to common stockholders	$ 9,075	$ 5,530	$ (1,520)
DENOMINATOR:			
Denominator for basic net income (loss) per share-weighted average shares	17,362	15,332	15,265
Effect of dilutive securities:			
Employee stock options and warrants	689	939	-
Denominator for diluted net income (loss) per share-adjusted weighted average shares and assumed conversions	18,051	16,271	15,265

Weighted average options to purchase 4,599,000, 2,786,000 and 1,190,000 shares of common stock were outstanding for the years ended March 31, 1997, 1996 and 1995, respectively, these options were not included in the calculations of diluted earnings per share because their effect would be antidilutive.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None.

(b) REPORTS ON FORM 8-K

On December 5, 1997, the Company filed a Current Report on Form 8-K reporting the completion of the acquisitions of CentreSoft and NBG on November 26, 1997. The transactions were accounted for as "pooling of interests."

On December 12, 1997, the Company filed a Form 8-K/A containing the audited consolidated financial statements of Combined Distribution (Holdings) Limited as of and for the ten months ended April 30, 1997.

On December 23, 1997, the Company filed a Current Report on Form 8-K reporting the Company's private placement of $60,000,000 principal amount of 6 3/4% Convertible Subordinated Notes due 2005.

On January 9, 1998, the Company filed a Current Report on Form 8-K reporting information under Item 5, Other Events, and under Item 7, Financial Statements, Pro Forma Financial Information and Exhibits. In the report, the Company restated financial statements and supplemental data as a result of the acquisition of CentreSoft in November 1997. All balances were restated as if the acquisition had occurred June 28, 1996, the inception of CentreSoft.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 13, 1998

ACTIVISION, INC.

/s/ BARRY J. PLAGA - ----------------------- (Barry J. Plaga)	Senior Vice President and Chief Financial Officer (Duly Authorized Officer)	February 14, 1998

5
1,000
U.S. DOLLARS

9-MOS
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APR-01-1997
DEC-31-1997
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